

## Message Text

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ACTION NEA-06

INFO OCT-01 EUR-10 IO-03 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-10 L-02 NSAE-00 NSC-07 PA-01 RSC-01 PRS-01 SP-02

SS-14 USIA-04 AID-05 COME-00 EB-03 FRB-01 TRSE-00

XMB-01 OPIC-02 CIEP-01 LAB-01 SIL-01 OMB-01 SEC-01

CEA-01 STR-01 DRC-01 /086 W  
----- 072824

R 101334Z OCT 74

FM AMEMBASSY TEL AVIV  
TO SECSTATE WASHDC 4163  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
USMISSION GENEVA  
AMEMBSSY PARIS

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E.O.11652: N/A

TAGS: EFIN, IS

SUBJECT: ISRAEL CORPORATION - ROSENBAUM - INTERNATIONAL  
CREDIT BANK CONTROVERSY

REF: TEL AVIV 5552

1. ISRAEL CORPORATION-ROSENBAUM-INTERNATIONAL CREDIT BANK  
CONTROVERSY REPORTED REFTEL TAKING ON DIMENSIONS MAJOR SCANDAL.  
OPPOSITION LIKUD PARTY REQUESTED SPECIAL SESSION KNESSET  
OCTOBER9 TO DISCUSS THIS ISSUE AMONG OTHER NONECONOMIC MATTERS.  
IN SPECIAL SESSION, LIKUD SPOKESMAN DESCRIBED SCANDAL AS  
"ECONOMIC POGROM" AND SAID LOSS OF CONFIDENCE IN ISRAEL'S  
ECONOMIC AND FINANCIAL LEADERSHIP WAS FAR WORSE THAN LOSS  
OF DEPOSITS. ISRAEL'S FOREIGN INVESTMENT PROSPECTS, ISRAEL  
BONDS, AND UJA HAD ALSO BEEN DAMAGED. FAULT, HE SAID WAS  
WITH SYSTEM WHICH LINKED ECONOMIC FACTORS TO POLITICAL REGIME  
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WHICH GRANTED TAX CONCESSION TO FAVORITES. COMMERCE AND

INDUSTRY MINISTER BAR-LEV, SPEAKING FOR GOVERNMENT, REPLIED THAT GOI COULD NOT BE HELD RESPONSIBLE FOR ALL ISRAEL CORPORATION(IC) ACTIONS, FOR IC WAS INDEPENDENT CORPORATION AND GOI OWNED ONLY SEVEN PERCENT INTEREST. BAR-LEV REMINDED LIKUD THAT IC'S CONCESSIONS HAD BEEN APPROVED BY KNESSET. BAR-LEV IN KNESSET AND FINMIN RABIONWOTZ UPON TO ISRAEL OCT 9 BOTH STRESSED THAT GOI REGARDS IC MATTER AS IMPORTANT AND IS INVESTIGATION POSSIBLE OFFENSES. HOWEVER FINMIN EMPHASIZED NECESSITY OF "SENSE OF PROPORTION" IN ORDER NOT DETER INVESTORS OR DAMAGE ISRAEL'S FOREIGN INVESTMENT ENVIRONMENT.

2. IC'S INTERIM MANAGEMENT HAS FILED A FORMAL COMPLAINT WITH POLICE AGAINST FORMER MANAGING DIRECTOR MICHAEL TZUR. IC CHARGED THAT \$8.5 MILLION OF ITS FUNDS WERE TRANSFERRED BY TZUR TO THE INTERNATIONAL CREDIT TRUST (ICT), A LIECHTENSTEIN COMPANY CONTROLLED BY DR. TIBOR ROSENBAUM, ICT IS INSOLVENT, AND TZUR ACTED KNOWINGLY AGAINST IC'S INTERESTS. SPECIAL POLICY INVESTIGATORY UNIT IS EXAMINING IC'S BOOKS AT REQUEST OF ATTORNEY GENERAL. TZUR, WHO HAS BEEN ASKED NOT TO LEAVE COUNTRY, MAINTAINS HE KEPT IC BOARD FULLY INFORMED OF FUNDS DEPOSITED WITH ROSENBAUM COMPANIES, MAJORITY OF WHICH WERE PLACED WITH ICT BY IC-AFFILIATED COMPANIES WHICH HE DID NOT MANAGE.

3. THE HESSISCHE LANDESBANK'S DECISION WITHDRAW FROM INTERNATIONAL CREDIT BANK(ICB) AND TO RETURN ITS 36.4 PERCENT HOLDING TO ROSENBAUM TRIGGERED COLLAPSE ICB AND ICT. ISRAEL PRESS ACCOUNTS ESTIMATE TOTAL LOSSES IN ROSENBAUM ENTERPRISES AT \$135-200 MILLION, MOSTLY BY JEWISH COMPANIES AND INDIVIDUALS, INCLUDING: IC \$8.5 MILLION ; ZIM \$11.5 MILLION; HAIFA REFINERIES \$3 MILLION; HISTADRUT AND INSTITUTIONS OF HIGHER LEARNING \$7 MILLION; BANK OF ISRAEL \$.5 MILLION MINISTRY OF DEFENSE \$.2 MILLION, 400-500 SMALL CREDITORS \$30-35 MILLION, NON-ISRAELI INVESTOR, INCLUDING BLOOM FIELD BROTHER OF CANADA \$60-65 MILLION.

4. HOWEVER, ACCURATE ACCOUNTING NOT AVAILABLE AND FULL EFFECT ICB AND ROSENBAUM COMPANIES BANKRUPTCIES ON IC AND ISRAEL'S LIMITED OFFICIAL USE

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FINANCIAL ESTABLISHMENT NOT YET VISIBLE. THERE ARE PRESS REPORTS THAT THE CANADIAN - ISRAEL CORPORATION OF MONTREAL HAS CANCELLED ITS PLANS TO INVEST \$8 MILLION JOINTLY WITH IC. MOREOVER, SIGNIFICANT NUMBER OF ISRAELIS REPORTEDLY HAD ILLEGALLY TRANSFERRED MONEY TO GENEVA INTO ICB NUMBERED ACCOUNTS. SUCH SECRET DEPOSITS COULD CONCEIVABLY BECOME KNOWN IN PROCESS OF LIQUIDATING ICB. SOME ISRAELIS READY TO RENOUNCE THEIR CLAIMS TO THEIR ACCOUNTS IN ORDER TO

PREVENT THEIR NAMES FROM BEING REPORTED TO THE AUTHORITIES,  
ACCORDING TO MEDIA.

5. BARON EDMOND DE ROTHSCHILD, CHAIRMAN OF THE IC BOARD,  
WILL ATTEND THE IC BOARD MEETING SCHEDULED FOR OCTOBER 13  
IN ISRAEL. HE HAS BEEN QUOTED AS SAYING THAT HE WILL DEMAND  
FIRM ASSURANCE THAT THERE WILL BE NO REPETITION OF FINAN-  
CIAL PRACTICES WHICH PRODUCED PRESENT SCANDAL. ROTHSCHILD  
HOLDS SIX PERCENT OF IC'S TOTAL ASSETS.

6. COMMENT. FINAL IMPACT OF SCANDAL INVOLVING ISRAEL'S  
MOST PRESTIGIOUS INVESTMENT BODY STILL NOT CLEAR. HOWEVER,  
GOI MINISTERS ARE VERY MUCH ON DEFENSIVE. SEEMS LIKELY,  
FOR EXAMPLE, THAT FORMER FINMIN SAPIR'S PRESTIGE WILL BE  
TARNISHED SINCE IT WELL KNOWN THAT HE WAS INSTRUMENTAL  
IN CREATION OF IC AND APPOINTMENT OF ITS DIRECTORS. SAPIR  
HAS DENIED ANY DETAILED KNOWLEDGE OF IC'S OPERATIONS.  
QUESTION OF WHY UNPRECEDENTED TAX CONCESSIONS GRANTED TO  
IC DESPITE FACT THAT IT DID NOT INVEST ALL ITS FUNDS IN  
ISRAEL CERTAIN TO BE RAISED CONTINUALLY IN PUBLIC DEBATE.  
THIS SCANDAL AND STILL PENDING ISRAEL-BRITISH BANK AFFAIR  
WILL CERTAINLY RAISE QUESTIONS FOR POTENTIAL INVESTORS.  
ON OTHER HAND, SUCH INVESTORS SHOULD TAKE INTO ACCOUNT  
THAT ISRAEL HAS TRADITIONALLY RELIED ON ENTREPRENEURS OF  
VARIOUS TYPES, MOST OF WHOM HAVE BEEN HONEST AND HAVE MADE VITAL  
CONTRIBUTIONS TO ISRAEL'S REMARKABLE ECONOMIC GROWTH. MORE-  
OVER, GOI ASSUREDLY WILL TIGHTEN ITS CONTROL OVER FINANCIAL  
OPERATIONS INVOLVING PUBLIC INSTITUTIONS.  
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## Message Attributes

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